
From: Ryan, James (FTA)
To: Day, Elizabeth (FTA); Borinsky, Susan (FTA)
Sent: 1/29/2010 4:33:33 AM
Subject: RE: Honolulu's finances

An important dimension of the financial situation is that the City intends to construct the line from the developing areas in Kapolei on the west to downtown and other densely developed parts of the urban core of Honolulu on the east. The City has already executed a design-build contract for elements of westernmost six miles of the project (but has issued a Notice to Proceed that nominally includes only the engineering services needed to support completion of NEPA, pending completion of the ROD). Because the segment serving the urban core will be built last, this construction sequencing means that the entire project must be completed before any of it reaches full functionality as a major transit improvement. Consequently, should the project run into financial difficulties, adjustments to project scope or construction schedule would not be available as mitigation measures to reduce or postpone costs. Additional funding would be the only recourse.

From: Day, Elizabeth (FTA)
Sent: Fri 1/29/2010 6:59 AM
To: Ryan, James (FTA); Borinsky, Susan (FTA)
Subject: FW: Honolulu's finances

In terms of crafting a response to Peter, here are some initial thoughts. Please feel free to edit as you think is necessary.

Where things stand in the financial plan

The City is updating its financial plan during preliminary engineering to address the issues identified by FTA in the PE approval letter.

What have we said most recently

The PE approval letter said the following:

Further, the City should be aware that FTA's standards for the financial rating are higher for entry into final design than for entry into PE. The higher standard for final design includes an assessment of the robustness of the financial plan against increases in costs, shortfalls in revenue streams, and competing demands on funding sources. Some elements of the current financial plan may not fare well in the stress tests that FTA will apply to evaluate robustness. These elements include the projected revenue stream from the General Excise Tax, the diversion of FTA Section 5307 funds from ongoing capital needs of the bus system, and the increasing share of the City's annual budget that is required to fund the transit system. Were this plan submitted today in support of a request to advance the project into final design, its weaknesses would likely cause FTA to deny the request. Therefore, continued development and strengthening of the financial plan will be a crucial part of the PE effort.

The financial assessment prepared by FTA to develop the project's ratings for entry into PE says the following items as recommendations for improvement:

- The City should provide an independent forecast of GET surcharge revenues from a source that is familiar with the Hawaii economy.
- The City should substantiate its capacity to: (i) provide back-up funds for the Project should there be a cost increase or funding shortfall; and (ii) transfer a greater degree of revenue to the transit program without impacting other necessary City services.
- The operating cost estimate for the Project should be refined and better substantiated.

- The financing of bus and Handi-Van fleet replacements should be less reliant on FTA Section 5309 bus funds.
- The operating plan should be amended to reflect higher rates of unit cost growth for all services.

When will we review it again

The financial plan will next be evaluated by FTA when the City requests entry into Final Design. Several months prior to the anticipated date of the project's entry into Final Design, we begin our detailed financial capacity analysis. This is a roughly 90-day, in depth review of the financial plan that includes sensitivity testing of the assumptions in the plan by FTA's contractor. At the end of the FCA, an approximately 30 page report is produced that gives the contractor's opinion on: 1) the reasonableness of the assumptions in the plan; 2) the City's ability to withstand cost overruns or funding shortfalls; and 3) the City's ability to maintain a state of good repair.

What should we discuss as part of the New Starts report roll-out

· As a project moves through the phases of project development nearing receipt of a full funding grant agreement, FTA's requirements for the financial plan become more stringent.

· FTA has noted concerns about the project's financial plan that need to be addressed prior to entry into Final Design and receipt of a Full Funding Grant Agreement. However, the existing financial plan received a "Medium" rating and was sufficient for a project entering preliminary engineering

· In terms of committed funding, the City's existing financial plan is better than that of other projects only recently approved into preliminary engineering because the City already has a dedicated excise tax providing significant funding.

-----Original Message-----

From: Rogoff, Peter (FTA)

Sent: Friday, January 29, 2010 6:34 AM

To: Longo, David (FTA); Borinsky, Susan (FTA); Rogers, Leslie (FTA); Welbes, Matt (FTA); Steinmann, Richard (FTA); McMillan, Therese (FTA); Day, Elizabeth (FTA)

Cc: Brown, Sonia (FTA)

Subject: Honolulu's finances

Below is the latest shot from the Governor. I don't know that I want to necessarily say or do anything about this at the current time. But I could use a quick refresher on where things stand in the financial plan, what we have said most recently, when we will review it again, what are the moving pieces of concern We should be sure to discuss as part of the New Starts roll out prep time today. Thanks. -P

January 28, 2010

Lingle wants independent review of Honolulu rail-transit's financial plan

Gov. Linda Lingle said today that she will not sign off on Honolulu's rail project unless an independent review is conducted of the city's financial plan.

She said the City Council should demand an independent review of the rail project's financial plan.

Her comments came following a luncheon of the Republican National Committee winter meeting at Hilton Hawaiian Village.

"The financial plan is really a key focus for me," Lingle told reporters. "I am convinced more than ever, after reading the federal government's most recent letters – that I know of the most recent letters written to the city – that the financial plan is shaky at best."

Lingle said she would likely ask a private or nongovernmental organization to look at the financial plan that she would then share with the public.

"If I had to sign off now, I couldn't, based on what I know from the federal government about the financial plan, because they basically say this can't be sustained," she said.
